District-Federal Relations

A Partnership for Success

Introduction

The District of Columbia has experienced a renaissance in its relationship with the Executive and Legislative branches of the federal government. With support from key congressional leaders, this Presidential Administration realized early legislative gains in 1999, including passage of the Restoration of Home Rule Act which transferred the day-to-day control of the District government operations back to its elected leaders.

The Financial Management and Assistance Authority, created in 1995 to reverse the city's financial decline and to improve the city's services, could lapse as early as the end of Fiscal Year 2001. This is a result of the District bringing spending under control, balancing its budget for the past four years, streamlining government, and now delivering services more effectively and efficiently.

The District's long-term fiscal viability, however, requires more than just streamlining government and balancing the budget. It requires creating a sustainable revenue structure. Long-term fiscal stability will require a realignment of spending and revenue responsibilities between the District and the federal governments. The National Capital Revitalization Act of 1997 transferred responsibility for the District's most burdensome state responsibilities to the federal government, recent budgets have included new and expanded federal support in many areas. Nevertheless, there are still remaining roles and responsibilities that need to be redefined.
In that regard, the District recommends that:

- The Mayor, the Council and Authority collaborate with federal representatives to redefine the federal role in funding additional state functions not addressed by the Revitalization Act.

- The federal government provides a payment in lieu of taxes to compensate for the services provided by the District as well as the loss in revenue due to federal restrictions on the District's ability to tax.

- The Mayor, in conjunction with the Council and the Authority, collaborate with federal representatives to expand and create innovative partnerships between District agencies and federal departments.

Each of these three broad recommendations is discussed in the next three sections below. Included in the discussions are additional recommendations for addressing specific issues in programmatic areas.

State and County Functions

The Mayor, the Council and Authority should collaborate with federal representatives to redefine the federal role in funding some traditional state and county functions such as public schools, public safety, environment, and mental health. Although the federal government provides some public services, like national defense, most goods and services are provided through state and local governments. The states have primary responsibility for ensuring freedom, quality of life, and a measure of justice for their residents. This responsibility is shared by cities, counties, and their overlying state governments through the operation of an intergovernmental fiscal system. Under that long-standing arrangement, states generally limit their direct provision of services to large, basic infrastructure systems – the courts, prisons, licensing and regulation, health care, universities, and highways – but they provide the funding and the technical and administrative support for the provision of local-level services such as elementary and secondary education, child care, foster care, and other critical service areas.

In addition, to protection against economic downturns that negatively impact essential governmental functions, the states provide fiscal assistance to their subordinate governmental units in inverse proportion to local wealth. And, although no two American cities are alike in their revenue or spending responsibilities, they share the common characteristics that when trouble hits, there is a state government to which they can turn and that has the authority to take charge. During the New York City fiscal crisis of the mid-1970's, the state permanently shifted the funding and administration of the four year colleges within the city university system along with the city court system to the state government.

When the District ran into fiscal trouble that led to the creation of the Financial Authority in 1995, there was no "state" to take control or bail the District out. Although the District does not receive the "state" aid that other cities get, it has to provide a range of public services that states typically provide. To compensate for some of this problem, the National Capital Revitalization Act of 1997, among other things, provided federal restructuring and funding of four state-type services in the areas of courts, prisons, Medicaid, and transportation infrastructure.

Congress went even further in 1999. It passed the District of Columbia College Access Act. This Act provides in-state tuition rates for District residents to attend public colleges and universities in Maryland and Virginia. It also provides grants for District residents to attend private colleges and universities in the District and in nearby counties in Maryland and Virginia. Not only will this federal support aid students in obtaining access to quality affordable higher education, but it will also spur the continued residential growth of the District.

Nevertheless, these measures alone will not achieve the ultimate goal of long-term financial solvency for the District. There are remaining state functions that the District must continue to provide. The following are programmatic issues affecting the District's long-term stability and some options for resolving these issues.

PUBLIC SCHOOLS

States generally provide a substantial portion of funding for public schools through a state aid formula. States also have important administrative responsibilities in obtaining and distributing federal funding to help support the schools. Capital outlay and debt services, for example, generally are principal responsibilities of state government.

An analysis of similarly situated cities indicates that states provide them with approximately 43 percent of their funding, in addition to funding from federal and local sources. In sharp contrast, the District of Columbia Public School system receives no separate or additional "state" funding.

School construction and special education are two areas where federal support is required. For both of these areas, an increased federal role in the District is supported by both standards among American cities, as well as precedent established by the Congress. In that regard, the District seeks federal support for the following:

School Construction

A General Accounting Office report found that state funding for school facilities totaled more than $3 billion, or about 20 percent of all funds for school construction in that year. (School Facilities: States' Financial and Technical Support Varies, GAO/HEHS 96-27, November 1995). In total, state and local governments jointly spent $22 billion on school construction in fiscal year 1994. Recently, school districts in Arizona and some parts of California must meet a 50 percent matching requirement to receive new school construction loans and grants. In Massachusetts, the state reimburses local school districts for certain capital improvements and new construction costs. Maryland pays 50 to 75 percent of new construction costs in any county and for the City of Baltimore.

The District of Columbia Public Schools (DCPS) system, which is part of the local government, has no independent revenue source or access to capital for maintenance, improvements, or new construction, except through the District government. A provision included in Public Law 104-208, the Student Loan Marketing Association (Sallie Mae) Reorganization Act of 1996, provided a one-time capital infusion. However, these funds are not a substitute for a long-term commitment to maintain and upgrade public school facilities in the District.

For FY 2001 – FY 2006, the District plans to spend $776.6 million for renovations, general improvements, and new school construction for the DCPS. This plan includes building two new schools, a junior high school and technology center, modernizing 8 schools each year, and renovating restrooms across the school system.

DCPS Capital Improvement Plan FY 2001 – FY 2006
(In thousands)

FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
$168.9	$92.0	$86.5	$103.7	$171.2	154.3

If the federal government provided DCPS with capital funding comparable to the range of funding support provided by states to their local education agencies the amount would be $155 to $582 million. The District's Capital Improvement Plan includes federal funds to pay for DCPS's expenditures. However, the District has identified other financing sources in the Capital Improvement Plan, if the federal government does not make this funding available. Likewise, the financial plan shows this potential contribution from the federal government as a "below the line" item, not included in the projections for the general fund.

The District government has made a substantial commitment to invest in education and the District's youth. To help satisfy its promise, the District has pledged to construct a state-of-the-art technology high school that provides a "technology" curriculum and prepares students for the abundance of technology related jobs in the region. This high school will serve as a hub and resource center to prepare students for the work force and train teachers in the use of technology. The facility will foster and encourage "around the clock" usage by District students, residents, universities, and employers and provide technology-oriented education and employment training. The objectives are to deliver high quality academic programs to students, and to expand professional development to raise the quality and standards of both teachers and principals. This multi-phase planning, design, and construction program will be known as the Career and Technology School (CTS) project. When complete, the CTS will be one of the nation's premier technology-based educational facilities.

Special Education

Special Education continues to be an area that requires additional financial support. In most states, support for these costly programs is shared among the local education agency, the state agency and, to a lesser extent, the federal government. A study of special education cost shares done by the Council of State Governments in 1997 demonstrates that an average of 44 percent of special education funding came from the state level. This is more than *six times* the level of District funding of 6.3 percent, the portion of special education costs covered by the federal government in FY 2000. In FY 1999, the federal government acknowledged its responsibility in this area by providing DCPS a one-time allotment of over $30 million earmarked for special education purposes. This funding should be continued as an ongoing contribution to special education programs.

Special education funding is one of the primary reasons to explore the creation of a "state" level entity for the DCPS and Public Charter Schools ("Charter Schools"). For a number of years, the District of Columbia has looked at creating a State Education Agency (SEA) to assume a greater role for the oversight and distribution of state-designated costs and to increase the District's access to sources of support enjoyed by other states. Currently, the Council and the Mayor are reviewing legislation to create such an agency. Local leaders believe that a SEA will increase accountability and will play an important role in linking local needs to federal dollars – creating a stronger bridge. Because of the level of state funding targeted to special education, the development of this agency is particularly critical to increase access to and accountability for those funds.

This section looks in greater detail at the *use* of increased federal funds to provide immediate investment in programs, which will reduce long-term costs, while improving services and, ultimately, decreasing the number of students who require special education placements.

In lieu of a SEA, DCPS is responsible for special education programs and policies. Since the beginning of FY 1999, the number of children in non-public placements has increased by more than 500. These placements usually result from court orders or due process hearings, or when DCPS does not have the capacity to provide the appropriate services "in-house." For this reason, additional funds would be targeted toward increasing "in-house" capacities and to improving tracking and monitoring systems for students currently in the special education system for the purpose of increasing overall compliance with federal law.

There are *three goals* for additional investment in the area of special education, each with specific intended outcomes. Federal support could greatly improve the DCPS' capacity to achieve these outcomes.

- ***Improve compliance.*** Compliance failure has led to a long backlog of expensive court cases in the past. To accomplish this goal, the school system needs to devote additional resources to maintaining its Special Education Testing Service (SETS) database, which will be the school system's primary tool for monitoring compliance with assessment, placement, and other requirements. The intended outcome is a reduction in the number of nonpublic placements, which drive up the cost of special education services.

- ***Bring students placed in non-public settings back to DCPS***. Monitoring over the course of FY 2000 has shown the need to greatly expand monitoring activities at both the day and residential levels to accelerate the rate at which children in non-public placements may be returned to DCPS placements. Additional federal funds would enable DCPS to double its monitoring capabilities. The intended outcome is to return students in non-public placements for whom a DCPS placement is appropriate, within the three-year evaluation cycle.

- ***Inclusion of special education students in the general education environment***. The school system requires greater investment to build the capacity for "in-house" services. "Inclusion coaches" have proven one effective component to helping students' transition to these environments. The intended outcome is for special education students to participate in the general curriculum and to receive regular high school diplomas.

MENTAL HEALTH

Another critical service provider in need of redefining federal and District responsibilities is the Commission on Mental Health Services (CMHS) and its inpatient facility, St. Elizabeths Hospital. St. Elizabeths, which was once federally-owned and operated, now serves as the District's psychiatric hospital and provides large amounts of uncompensated care to impoverished District residents who require mental health services but cannot pay for it themselves. Five issues remain unresolved between the federal government and CMHS. The District is attempting to address two of these issues through legal action:

- Whether the District is entitled to additional funds to offset the capital costs related to the transfer of St. Elizabeths

- Whether the District is entitled to federal funding for the cost of patients it treats as a result of referrals by federal agencies

The remaining issues are:

- Whether the District should seek federal funding for care CMHS provides to non-District residents

- How the District can obtain funding for services it provides to forensics patients

- What funding is needed to further the redevelopment plans for the West Campus of St. Elizabeths hospital

If these issues are resolved in the District's favor, the District would receive one-time settlement revenue of $70.9 million, a subsequent annual reimbursement of $9.0 million, and potentially $37.4 million to assist in the construction of a new hospital.

Projected Settlement Revenues for St. Elizabeths (In Thousands)

Federal Revenues	One-Time Settlement	FY 2001	FY 2002	FY 2003	FY 2004
Capital Construction	$52,100	$0	$0	$0	$0
Federally Referred Patients	5,500	4,700	4,700	4,700	4,700
Forensics Patients	13,300	3,100	3,100	3,100	3,100
Non District Residents	0	1,200	1,200	1,200	1,200
Total	**$70,900**	**$9,000**	**$9,000**	**$9,000**	**$9,000**

One-Time Settlement Payment and On-going Reimbursements

In 1987, Congress passed legislation transferring the east campus of St. Elizabeths hospital to the District. Prior to 1987, the federal government owned and operated St. Elizabeths 350-acre, 104-building campus, which was first created by Abraham Lincoln to serve Civil War soldiers who required psychiatric services. After 1987, the West Campus remained under federal ownership and the Federal Department of Health and Human Services (DHHS) and the District's Commission on Mental Health Services (CMHS) agreed that CMHS would continue to use the west campus without compensation.

According to CMHS, under the transfer plan, the District was to receive a 1,200-bed hospital that it would subsequently downsize. When the District received the hospital, it had 1,500 beds, 25 percent more than planned. This placed an unexpected burden on the District to reduce many more beds than it had planned. In addition, the 1987 legislation stated that the federal government would transfer St. Elizabeths facilities, many of which were constructed in the late 19^{th} or early 20^{th} centuries, to the District in renovated condition. After the legislation passed, the District signed a use permit with the DHHS accepting a one-time payment of $27 million for capital improvements. The use permit stated that the District would accept the buildings in "as-is" condition.

The 1987 legislation also phased out the federal government's annual $110 million subsidy to St. Elizabeths because the hospital became a District responsibility. The legislation provided for federal payments to the District totaling $101 million between FY 1987 and FY 1991. At the time, it was believed a phase-out of federal support was appropriate because St. Elizabeths would downsize and CMHS would serve a primary function as the District's mental health agency. Since 1987, CMHS has downsized the hospital considerably. St. Elizabeths housed 1,500 inpatient beds in 1987 at the time of the transfer. It presently operates under 650 beds, and CMHS expects to reduce this number significantly in FY 2000. However, it is not entirely clear whether phasing out and eventually eliminating the federal subsidy was appropriate. St. Elizabeths continues to provide a significant number of inpatient services that comply with unfunded federal mandates. Some of these services are described in the five issues outlined below.

The Federal Government Should Provide the District with Adequate Capital Funding to Maintain the St. Elizabeths Campus in a Condition that is Suitable for its Patients

CMHS has filed a lawsuit, which has been amended to total $70.9 million, against the federal government to obtain additional funding for the capital costs associated with the St. Elizabeths transfer and to obtain payment for the cost of patients federal agencies refer to St. Elizabeths. According to CMHS, the $27 million the federal government provided in 1987 for capital costs was not sufficient to maintain the campus in an adequate condition. CMHS has spent $11 million of the $27 million on maintaining the campus' failing heating and boiler system, although CMHS contends that renovating the system is a federal responsibility. Congress required an additional $5.5 million of the $27 million to be spent on community housing for the mentally ill, which contributed nothing to improving the infrastructure the federal government passed on to the District. CMHS spent the additional $10 million on removing asbestos and other hazardous substances from its buildings and making emergency building repairs.

In its lawsuit, CMHS argues that it would require an additional $52.1 million to simply bring its facilities up to code, adjusted for inflation. Both parties to the case have filed for summary judgement and are awaiting a decision from the court on whether the case will proceed to trial. District and CMHS officials may have to decide whether or not to settle the case out of court. In the meantime, the District incurs an estimated $8.5 million annually to heat, provide light, and maintain the St. Elizabeths campus, which is partially a result of the archaic infrastructure the District inherited.

The Federal Government Should Reimburse the District for the Cost of Patients the Federal Government Refers to St. Elizabeths

The District's lawsuit against the federal government includes $5.5 million that the federal government owes the District for the cost of services CMHS has provided to patients referred by federal agencies between 1988 and 1994. The most common federal referral agency is the Secret Service, which frequently refers individuals who have made or carried out threats against public officials. The federal government has not provided payment for these services. If the court decides in CMHS' favor, federal agencies may be required to pay future expenses related to referrals in addition to paying past referral costs.

The Federal Government Should Finance a Portion of the Care of Non-District Residents St. Elizabeths is Required to Serve

CMHS estimates that 29 percent of CMHS' newly-admitted patients are not residents of the District. Federal law, which was incorporated as part of the District code when the District began home rule, requires the District to treat all individuals who require services, regardless of whether they are District residents. It is CMHS's position that as the nation's capital, the District attracts an unusual number of people, including individuals requiring psychiatric treatment, who come to the District to press their views upon federal officials. Because the District is a federal enclave, the federal government has a responsibility to pay for the costs of these individuals. CMHS estimates that treating these individuals costs $1.2 million each year. The District does not presently have any legal action or proposal before the federal government to obtain payment for these services.

The Federal Government Should Pay a Portion of the Cost of CMHS 'Forensics Program

Under the National Capital Revitalization Act, the federal government assumed responsibility for the District's Department of Corrections. Historically, the Department and the Courts have referred a significant number of individuals to CMHS. On-going payments will total $3.3 million per year. Other individuals are referred from Corrections following conviction because they require intensive psychiatric care. In 1999, the District received an initial payment of $13.3 million for treatment of persons found not guilty by reason of insanity by the U.S. District Court. The District began pursuing federal payment for services provided to Corrections inmates in FY 1998. Pursuing federal funding of these functions in FY 2000 and beyond would ensure an ongoing revenue stream to CMHS, which estimates that these revenues could equal $3.1 million in FY 2000

The District's Position on West Campus Redevelopment

The District and the federal government have not yet addressed the future of the West Campus after CMHS has moved to the East Campus. In 1993, the District government submitted a plan to Congress to redevelop the West Campus. The 1987 transfer legislation required the federal government to submit this plan. Under the plan, the federal government proposes to transfer ownership of the West Campus to the District, which could in turn transfer the campus to a development corporation. The plan requested that Congress appropriate $5 million to the development corporation as "seed money." Congress took no action on the plan, nor were congressional hearings even held on the subject. The District is requesting that the federal government share in this expense.

POLICE REIMBURSEMENT

Court Overtime Costs

Currently, the District spends $8.9 million annually on overtime costs to pay Metropolitan Police Department (MPD) officers to testify in court. While this is a function of both District police officers and the court system, it unduly burdens the budget since the District government has no controls over these costs. The U.S. Attorney's Office expects police officers to be present at 10:00 a.m. and stay until they testify that day. In other jurisdictions, police officers have beepers to alert them that they will be testifying shortly. MPD estimates that if its officers also had beepers, overtime and time off the streets would be cut in half. Since these court overtime costs are a result of the U.S. Attorney's Office, the U.S. Department of Justice should assume them. This measure would reduce the District's overtime costs and the length of time that officers spend in court. This would increase the amount of time that police officers can be on patrol.

DC Public Safety Reimbursement

The District fully supports Congresswoman Eleanor Holmes Norton's proposed legislation: The DC Public Safety Reimbursement Act. This legislation would reimburse the District annually for the considerable services the MPD provides every year to cover the many national events and activities that occur here because the District is the national seat of government. This bill would also allow the District to preserve the resources of our police department for our neighborhoods.

In the bill proposed by Congresswoman Norton, she cited the following precedent:

- "There are two important grounds for this bill, one statutory and the other historical precedent. The statutory basis is the 1997 Revitalization Act, where the District traded the federal payment for a much larger federal assumption of state costs. However, the right of the District to receive a federal contribution was preserved." The Act states, "the unique status of the District of Columbia as the seat of the government . . . imposes unusual costs and requirements which are not imposed on other jurisdictions and many of which are not reimbursed by the federal government." [Furthermore,] the Act (Section 11601) allows "for each subsequent fiscal year [after FY 1998], such amount as may be necessary for such contribution."

- The second basis for a designated public safety contribution is historical precedent. *Separate from the annual federal payment*, Congress has traditionally appropriated additional funds for public safety purposes. Amounts have ranged from $5 million to $30 million, depending on the need and public safety issues arising in the particular year. Such funds have been appropriated for national events in other jurisdictions as well. Just last year, Congress included $5 million to help cover police costs during the World Trade Organization meeting in Seattle. Here in the District, there has been a consistent congressional understanding that police work in the nation's capital necessarily involves the federal and national interest and deserves special and unique support. Thus, Congress should return to its original understanding of its responsibility for a share of public safety in this city, specifically for police protection for national and federal events. The District is requesting $8.9 million for court overtime and $5 million for public safety reimbursement.

TREES

States play a pivotal role providing oversight and monitoring for resource management, particularly on environmental issues. In its planning and monitoring role, states assess environmental health concerns from a statewide perspective and work with local and federal agencies to devise strategies and identify resources to meet state needs. States with large urban areas, high-density populations, heavy traffic patterns, and minimal open green space, are particularly vulnerable to environmental air quality problems, which may run afoul of federal standards. It is the role of the state to plan for, monitor, and ameliorate such occurrences.

The importance of our "urban forest" to the quality of life in Washington is difficult to overestimate. Urban trees provide energy savings, water pollution abatement, flood control, privacy, wildlife habitat, and feelings of community well being. Further, because of shading and "evapotranspiration," additional trees would dramatically reduce the "heat island effect" that currently makes the city 5-9 degrees hotter than the suburbs in the summer, discouraging tourism, businesses and residents. Though once known as the "City of Trees", because of the majesty of its tree resource, the District has, in the past decade, seen the size of its street tree population decimated.

The District has approximately 100,000 trees remaining. Nearly 5 percent of these trees, or 5,000, die each year. However, fewer than 500 trees per year have been planted since 1994. Hence a loss of 4,500 trees per year. To return to a sustainable level of tree maintenance and planting, a significant investment is required.

To address this need, and to remedy a quarter century of governmental neglect, the District proposes the creation of a Federal Tree Trust Fund, with a $7 million annual federal payment, so that the nation’s capital can return to its previous stature as the nation’s leading urban forest.

ANACOSTIA RIVER CLEANUP

As part of the state environmental planning and monitoring role, state environmental agencies are responsible for the flow and clean up of major waterways and tributaries. Restoring the natural beauty of the Anacostia River and enhancing its recreational and economic development potential is one of the Mayor’s highest priorities. The Anacostia River has a severe water quality problem making it one of the most polluted waterways in the United States. The restoration of the Anacostia River will help to preserve the District’s natural environment, improve habitation for wildlife and provide recreational opportunities for residents. Currently, there are three major factors impacting the clean up of the Anacostia River: total maximum daily loads; the combined sewage system; and storm water discharge.

First, under the federal Clean Water Act, states are required to monitor the Total Maximum Daily Loads (TMDL) to determine the source of pollution affecting the Anacostia River. States are required to provide funding to support this effort to set limitations on reducing the loading of toxins and contaminants into the river.

Secondly, one of the major sources of the water quality degradation is the District’s combined sewer system. This system was constructed at the turn of the century by the federal government and, unlike modern systems, it collects both the sanitary sewage and storm water during rains into a single pipe. The combined system was designed to overflow into the river if it rained for prolonged periods. These overflows contain large amounts of human pathogens that render the river a health hazard. Additionally, the sewage causes a reduction in the amount of oxygen available for the fish and fish kills are common in the spring and summer.

The combined sewer system needs to be rehabilitated to eliminate the dry weather overflows. Storage facilities will be constructed to capture the combined sewer overflows (CSO) to intercept their discharges before they reach the Anacostia River.

Finally, another major cause of pollution to the Anacostia River is the storm water discharges that pollute the river, which kill fish several times each summer. The District has applied for a National Pollutant Elimination System Storm Water Permit. The development and implementation of a program to enforce illegal disposal of pollutants into the storm sewers will control substances such as motor oils and petroleum products from being dumped into the water. Additionally, because much of the land in the District is already developed, many of the storm water control structures and facilities that are used in developing areas are not practical in the District.

A program is needed to develop and implement new technologies such as roof top storage, catch basin inlet modifications and experimental designs. In order to alleviate the problem entirely, a new system that will not use the Anacostia waterway could be designed. The total cost of all of these clean-up and restoration activities is $9.5 million.

Recommendation

The Mayor, the Council and Authority should collaborate with federal representatives to redefine the federal role in funding some traditional state functions.

COMPENSATING THE DISTRICT FOR SERVICES, CONSTRAINTS, AND REDUCED INCOME

The federal government has a profound impact on the District. Through congressional acts and executive orders, the District must conform to federal guidelines that impact the District's ability to tax specific sources of revenue and generate additional revenue through existing tax sources.

Conversely, the District government also has a profound affect on the federal government. The District's management of municipal services affects the public safety, physical infrastructure, and access to a trained workforce that is essential to the federal government's effective operation.

The mutuality of this relationship is not only part of the challenge, it is part of the solution. Some have suggested that the federal government provide a payment to the District in lieu of taxes (PILOT). Instead, Congress has taken varied courses, providing discretionary funding in FY 1998, and targeted subsidies in FY 1999 and FY 2000. The challenge remains to define a rational and systematic basis and corresponding amount for an ongoing federal support. The District recommends that this task be completed as part of this year’s federal budget process.

Justification for federal payment

1. ***Tax-exempt property and other tax limitations relating to the federal presence***. There is a vast amount of tax-exempt federal government and federal government-related property in the District as well as various other tax exemptions granted by Congress. First, in regard to tax exempt real property, a 1997 study by the Brookings’ Institution estimated that 41 percent of District property is exempt from paying taxes. Included in this estimate are:

   - Federal government property
   - Traditional local exemptions mandated by Congress (such as churches and educational institutions)
   - Foreign property and property exempted by special act of Congress and executive order of the President

The amount of tax revenue the District loses from these properties depends upon their assessed value and the associated property tax rate. For example, the Brookings’ study estimated that based on the current commercial property tax rate of $2.15 per $100 of assessed value, the exempt property would generate $609 million in property tax revenue if it were taxable. However, using Brookings' proposed lower commercial property tax rate of $1.31 per $100 of assessed value this property would generate $382 million in property taxes.

Congress has also restricted the overall size of the District of Columbia's economy by limiting the height of buildings in the District and imposing other limitations relating to the federal presence in the District. The November 1990 report "Financing the Nation's Capital: The Report of the Commission of Budget and Financial Priorities of the District of Columbia ("The Rivlin Report") cited the height restriction as a key limitation on the ability of the District to raise adequate revenue. The height restriction limits the revenue raising capacity because it reduces the amount taxable real property in the District.

Additionally, Congress has restricted the District's ability to tax specific items. Exhibit 1 lists items that are exempt by federal action.

Exhibit 1

Federal and Congressional Tax Exemptions

Item	Forgone Revenue Fiscal Year 1995
Sales Tax on Military Purchases	$10.9 Million
Sales Tax on Diplomatic Purchases	$11.2 Million
Income Tax on Military Personnel	$21.1 Million
Income Tax on Diplomatic Personnel	$25.6 Million
Exempt Personal Property*	$52.6 Million
Total	**$121.4 Million**

*Federal and Special Act of Congress exemptions

These exemptions further narrow the District's tax base. As a result, the District must tax a smaller tax base at a higher rate to generate the revenue necessary to provide services to the District's citizens. No other city faces similar constraints that so greatly impact its ability to raise revenue.

2. ***Limitations on taxing income earned in the District of Columbia.*** The congressional limitations on the District's ability to tax income earned in the District emanate from an explicit congressional prohibition on taxing the income of nonresidents. This limitation have dramatically constricted the District's tax base and forced District residents to bear a greater tax burden compared to residents of other jurisdictions.

The current federal restriction on the District's ability to tax nonresident income is onerous because, first, it applies only to the District. Congress has imposed this limitation only in the District where it controls the municipal budget. All states that have income taxes tax non-resident income. (The Orphaned Capital: Adopting the Right Revenues for District of Columbia, Carol O'Cleirecain, 1997 at 105).

Second, due to the nature of the Washington area economy, this prohibition significantly restricts the ability of the District to raise revenue, while providing a revenue windfall to Virginia and Maryland. In fact, the Brookings' study estimated that the income earned by nonresidents working in the District exceeds that of District residents' earnings outside the city by $19.9 billion. Based on this, the study estimates that the District could raise approximately $880 million in additional revenue taxing nonresidents working in the District if Virginia's income tax rate is applied, the lowest in the region. Furthermore, taxed at a flat rate of one-percent, a city-type nonresident income tax rate would yield $180 million for the District. (O'Cleirecain at 110).

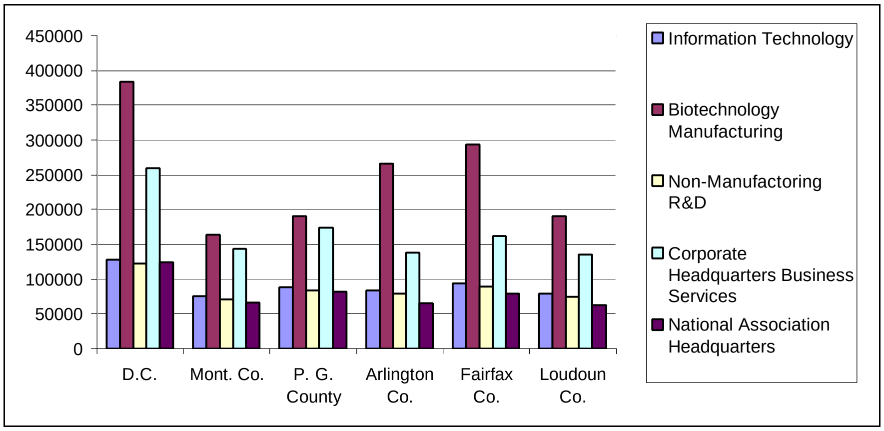
3. ***D.C. Tax Burdens: Personal and Business.*** The restrictions on the District's taxing authority contributes significantly to making the relative tax burden on District residents greater than the burden on residents in other jurisdictions in the Washington, DC metropolitan area and in other cities of comparable size. Both businesses and residents in the District face higher taxes than do their counterparts in most other cities and the surrounding jurisdictions.

- ***Personal.*** The District has the 15th highest tax burden for a family of four with an income of $50,000 compared to the largest city in each state. Specifically, the District personal income tax burden is higher than the regional average for all income groups.

- ***Business.*** The tax burden imposed by the District dissuades some businesses from locating in the District. The DC business tax burden also exceeds that of the suburbs by 50 to 75 percent. (Exhibit 2) In fact, the District's tax burdens are the highest in the region on commercial real property, corporate income, retail sales and utilities.

Exhibit 2

Business Tax Burdens are Higher in the District than in Neighboring Jurisdictions



Due to the restrictions placed by Congress on the District's ability to generate revenue from those who benefit from District services, the District must place a higher tax burden on a smaller tax base in order to fund all the state, county, and city services that it must provide to its citizens.

4. ***The Nations' Capital – A Unique Status.*** The unique status of the District of Columbia as the seat of the government of the United States imposes unusual costs and requirements which are not imposed on other jurisdictions and many of which are not directly reimbursed by the Federal government. The unusual costs and requirements imposed by the federal government on the District as the seat of government include direct unreimbursed costs associated with providing police and fire services at the multitude of special events, parades, demonstrations, and marches that annually take place in the District. These costs currently are not reimbursed because the federal government does not pay either for services through direct payment or indirectly through property taxes. Estimating the cost of direct provision of these services is not useful because these services are not provided on a use fee basis. Instead, the estimate of property taxes that the federal government would pay if taxable as discussed previously serves as a proxy for the cost of all unreimbursed services provided by the District to the federal government - both typical government services and service related to the unique nature of the District as the nation's capital.

Recommendations

Despite the federal 1997 initiatives in the Revitalization Act, additional actions are required to ensure that the District will have stable revenues to support its needs. The District must have access to reliable revenues, not discretionary appropriations that may be provided in each budget cycle. The federal government should provide payment in lieu of taxes for the District to compensate for the services provided by the District as well as the loss in revenue due to federal restrictions on the District's ability to tax. In that regard the following is recommended:

1. ***Payments for service*s - In** the FY 2001 budget, the federal government should include a payment in lieu of taxes to compensate for services provided by the District as well as revenue foregone due to federal restrictions on the District's ability to tax.

2. ***Payments in lieu of taxes* -** Other properties that the federal government has exempted, such as the World Bank, the International Monetary Fund, and other international organizations, should make "in lieu" payments, or the federal government should make "in lieu" payments on their behalf. There are adequate legal and policy precedents for such payments because the federal government already makes payments in lieu of taxes in other parts of the country and pays sewer and water charges to the District. In addition, the federal government already pays imputed property taxes on space it leases in the District, and it has agreed to make payments to the new Business Improvement Districts when federal buildings are located in these areas. Property owned by the federal government that qualifies for tax exemption under District property tax laws, e.g., the Mall, Rock Creek Park, the museum portion of the Smithsonian Institution, should not be subject to federal payments.

3. ***Tax income at its source* -** Allow the District (or the federal government) to tax income derived in the District. No state government is prohibited from taxing revenue earned within its borders. Currently, the federal government prohibits the District from taxing all income at its source. If this ban were lifted, the District could assess everyone who uses its services.

   A proposal currently being developed by Congresswoman Eleanor Holmes Norton would allow for a federal credit to reimburse Maryland and Virginia taxpayers for any non-resident tax that the District seeks to impose. This legislation, if passed, would then permit the District to tax income derived within its borders.

4. ***Extension and expansion of D.C. Enterprise Zone designation*** – The federal tax incentive provisions of the 1997 Revitalization Act established, for the first time, an intergovernmental fiscal partnership designed to promote increased capital investment, tax base diversification, homeownership, and employment in our Nation's Capital. The District proposes to build upon this partnership and extend its life beyond the brief 5-year period originally allotted. The continued availability of these financial tools is an essential component of the District's effort to compensate for the congressionally-imposed constraints of its fiscal capacity.

   The D.C. Zone employment tax credit is being used successfully to increase work opportunities, and local income and sales taxes while the First-time Homebuyer Credit has been instrumental in reversing the District's exceedingly low rate of homeownership. Since enactment, the liberalized revenue bond provisions of the Act have produced a record $2 billion of capital investment in a diverse range of business facilities. The availability of zero capital gains tax treatment of earnings resulting from business investments in commercially under served high poverty areas has resulted in an unprecedented interest in the city among a wide array of businesses, particularly retailers and technology companies that are essential to the Mayor's goal of tax base diversification.

Congresswoman Eleanor Holmes Norton is prepared to introduce legislation on behalf of the city and a host of business, community and civic organizations that would: (1) extend the partnership period; (2) equalize business access to the tax benefits; and (3) clarify the eligibility criteria. Enactment of this legislation will have direct, measurable, and enduring fiscal and social benefits to the city.

INNOVATIVE PARTNERSHIPS: WORKING TOGETHER TOWARD COMMON GOALS

In the discussion over roles and responsibilities, the District and federal governments must not lose sight of the fact that they share many common interests. Both require a safe city with quality infrastructure where people can commute, work, and live. The District and federal governments can best achieve this goal by leveraging their respective resources and combining their effort through well-structured partnerships.

Historically, the federal government has supported the District through traditional grant programs available to states, as well as through targeted funding for special initiatives. A key goal of the Mayor, however, is to expand this support into a full scale partnership, where District and federal agencies fully collaborate and combine their resources to maximize improvements to District services. These expanded partnerships will focus on key service areas such as the following:

- Crime prevention and response initiatives between the Metropolitan Police Department, the Federal Bureau of Investigation, and the U.S. Secret Service.
- Data and information sharing regarding higher education financial assistance between the DC Tuition Assistance Grant Program and the U.S. Department of Education.
- Substance abuse and mental health initiatives between the District Departments of Human Services, Health, Commission on Mental Health, and the U.S. Department of Health and Human Services.
- City cleanup and beautification initiatives between the District Departments of Public Works, Parks and Recreation, and the U.S. Department of the Interior.
- Street, bridge, and infrastructure renewal initiatives between the Department of Public Works and the U.S. Army Corps of Engineers
- Job training and family support initiatives between the District Departments of Health, Human Services, and the U.S. Department of Labor.
- Affordable housing, emergency and transitional housing for the homeless, and community investment initiatives between the District Departments of Housing and Community Development, Public Housing Authority, and U.S. Department of Housing and Urban Development.

In addition to the institutional changes that are being requested, there are a number of specific areas where projects need timely completion. These projects are integral to the District's transition from dependence on the federal government to self-sufficiency. In that regard, the following are areas of potential partnership opportunities between District agencies and federal departments that would significantly further the District's progression to independence after a century of neglect and under-investment:

SUBSTANCE ABUSE PREVENTION AND TREATMENT

The neighborhoods of the District of Columbia have been severely impacted by the presence of alcohol and other drugs. Rates of substance abuse are entirely too high and the negative impact on quality-of-life in our neighborhoods requires immediate, direct, and strategic action.

To respond to this problem, the Mayor has made the implementation of a comprehensive drug strategy a cornerstone of his administration. This strategy includes improved enforcement of drug laws in conjunction with the Criminal Justice Coordinating Council, funding of more treatment programs, and a substantial drug abuse prevention initiative. Although this three-pronged approach appears sensible, most cities have not been able to accomplish all three focus areas simultaneously. The Mayor wants the District to succeed in each focus area.

Central to the drug strategy is the restructuring of the Addiction Prevention and Recovery Administration (APRA), which currently functions as a treatment provider for indigent citizens. The Mayor's vision moves APRA from a service provider to a Single State Agency (SSA) that will set standards for service providers, monitor the quality of treatment and prevention programs, operate a central gatekeeping function, and assess the needs of District residents.

As a SSA, APRA would no longer directly operate prevention and treatment services, but will contract out these services to private providers who will be obligated to comply with the service delivery standards established by the SSA, and to submit regular performance outcome reports. The SSA shall develop and issue annual "program report cards" to guide future provider selection.

To change APRA to a high-functioning SSA, several infrastructure issues must be addressed. First, the District must complete and implement regulations for treatment and prevention providers. Next, a technology system must be developed that can track clients, treatment programs, available slots, and outcomes. Third, a thoughtfully constructed program must be developed that assures that limited dollars are being spent on high-quality, effective programs. Fourth, a treatment continuum that serves the changing needs of clients must be developed. Fifth, neighborhood-based prevention programs must be expanded to those neighborhoods identified as being most at-risk. The District has identified resources to promulgate rules and establish service provider standards and to begin performance measures development. Finally, as the District transitions APRA to truly function as a SSA, the role and resources of the District's mental health system must be maintained and leveraged for outreach, assessment and treatment services for persons with more than one health condition.

NEIGHBORHOOD REVITALIZATION

Georgia Avenue Corridor

The Georgia Avenue corridor is one of the key northern gateways into Washington, D.C., and should be revitalized to reflect the vitality and diversity of the District and the historic significance of the corridor. This area could become a showcase for the District's economic potential and our ability to attract new businesses and jobs. Among its many assets, Georgia Avenue is centrally located within the city and is home to 20 major institutions including Howard University and its Hospital and the Walter Reed Medical Center. The corridor has 30 significant historic buildings; 40 active churches; a multi-faceted transportation system, including three Metro stations; and a ready market base. Substantive projects are already underway which will help transform the Georgia Avenue corridor into a thriving, safe, and clean community that offers residents sustainable housing, meaningful employment, and a high quality of life.

Currently, high unemployment, high poverty, low educational attainment, and poor housing conditions inhibit developers from investing dollars in this 2.5-mile corridor. Most of the 37,000 residents are senior citizens, retirees, and low-income adults with young children. There are numerous abandoned properties in the area and several vacant lots. Recently the Mayor designated a portion of Georgia Avenue as a Capital Community – one of six distressed neighborhoods selected to receive targeted assistance over a two-to-three year period to reduce crime, improve housing, and establish comprehensive service programs for community residents. The Mayor's plan includes demolition of abandoned or blighted buildings, rehabilitating or building 335 new housing units, and creating streetscapes and natural areas that create appealing places to live, work, and play.

Also under serious consideration is the formation of a Georgia Avenue tax increment financing district (a model project) to be anchored by 2 or more large retailers and complementary smaller stores all situated in close proximity to Metro Rail and newly relocated government offices. This model project would involve the assembly of land and financial assistance to help offset relatively higher urban development costs. The District envisions federal assistance in the form of a commercial revitalization tax credit program. That program would build upon the modest plan provided under the FY 2000 Appropriation Act.

Economic and community development will market key strategic anchors such as the Eastern Avenue Gateway, Howard University, and the new Metro stations at Columbia Heights and Georgia Avenue/Petworth. The Mayor seeks to improve the facades of business areas, and create a "Cultural District". An employment training center and small business development center will ensure that local residents can compete for jobs in the neighborhood.

New York Avenue

As the District's largest industrial corridor, New York Avenue is key to the city's efforts to promote growth and employment opportunities. It is one of the District's most heavily traveled thoroughfares and presents significant development opportunities along the entire length of the corridor, especially in the area directly north of Union Station where acres of developable land remain underutilized and abandoned.

With the announcement of the New York Avenue Metro Initiative in June 1999 and subsequent funding of $25 million in President Clinton's FY 2001 proposed budget, many businesses have expressed an interest in locating to the area. The Federal Bureau of Alcohol, Tobacco and Firearms will locate its new headquarters there. The corridor between Union Station and New York Avenue is already wired for fiber optic cable, which facilitates high-speed Internet access and other telecommunications functions. The District already has succeeded in attracting major technology companies, including BET.com, Qwest Communications, MCI/Worldcom, and XM Satellite Radio. Virtually the entire stretch of New York Avenue will be positively affected by these technology neighbors, and the opening of the Metro station. These events will mark the transformation of a distressed neighborhood into a vibrant commercial gateway.

East of the River

The Mayor is committed to improving the quality of life for residents east of the Anacostia River, an area poised for change. Recent years have witnessed increasing levels of interest concerning the revitalization of the communities located east of the Anacostia River and the adjacent portions of Prince George's County.

East of the River contains some of the most commercially underserved and among the most economically disadvantaged neighborhoods in the city with respect to income, housing, and employment. Wards 7 and 8, which encompass the majority of East of the River neighborhoods, will be addressed by a well-planned, comprehensive, and coordinated effort among all city agencies that will target the area's social, physical, and economic deterioration. Demolition of severely distressed housing units, including several public housing developments; development of retail and commercial centers; new housing, and improved recreational space are among the many critical needs of the area. In addition, planned renovation of St. Elizabeths Hospital will enhance the facilities and provide for more efficient services.

Southeast Federal Center

The Southeast Federal Center and Anacostia Waterfront plan is a strategy for redeveloping 55 acres of prime waterfront. The Plan offers one of the most immediate opportunities to bring good jobs at higher wages to the Southeast quadrant of the District. The federal government will employ approximately 10,800 individuals at the Washington Navy Yard complex. Federal contractors have already begun work to lease office space in the vicinity. The total estimated project cost for infrastructure improvements is $47 million.

Recommendation

As part of the budget process, the Mayor in conjunction with Council and the Authority, should collaborate with federal representatives to expand and create partnerships between District agencies and federal departments.

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